

Developing Transparent Remuneration Systems

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The issue of remuneration is an emotive one that both sides in an employment relationship need to handle with due care. Because of its significance in the lives of employees remuneration plays a key role in driving the performance of any business. A transparent remuneration system which can be defended should questions arise is a strategic component of sustainable business performance.

What is happening in many organisations in relation to remuneration leaves a lot to be desired. In too many cases the remuneration systems is in shambles and is shrouded in secrecy. If your remuneration policy and structures are a secret how do you expect employees to contribute when they do not know the rules of the game. Your salary structures should not be secret documents. These should be communicated to employees to enable them to see the earning potential available should they decide to perform. Because organisations hide salary structures away from employees, they will always assume there is something being hidden. Communicating the salary structure to employees is not the same as disclosing an individual salary. Individual salaries are confidential but salary structures are not. A salary structure is a tool that every senior manager should have to enable them to reward employees based on contribution within the organisation's remuneration policy framework.

If you find yourselves in a situation where you cannot defend your salary structures, you might need to review it as a matter of urgency. A transparent remuneration system should be defensible and should be subject to scrutiny. Developing a transparent remuneration system gives your employees an opportunity to determine their earnings by exceeding performance targets they are given.

The first step in coming up with a transparent remuneration system is to agree the basis for your remuneration policy. This is not an easy task since most organisations have deeply rooted entitlement mindset. The entitlement mindset started with organisations that demonstrated to their employees that there is no relationship between what they earn and the performance of the business. As a result employees will always think that what they get paid has no relationship to the performance of the company. Those organisations that find themselves in this predicament would need a total overhaul of their remuneration system.

If your organisation decides to revisit the remuneration policy, the policy should clearly state that the company will pay employees based on company performance. A statement of intent like the one above will not make much difference to the attitudes of employees if it is not matched by action on the ground. Top executives in the organisation should walk the talk when it comes to critical issues like this. They need to be paid themselves based on performance in order for the system to have any impact. The policy should also clearly state that a basic salary an employee gets is paid with the hope that the employee performs to the required standard. In many cases employees demand extra payment for doing exactly what they were employed to do. Extra payment should only come when an employee has significantly performed above expectations and these expectations should be clear to all concerned.

The policy should also have specific guidelines that managers can use to decide what to pay new employees. When deciding pay for these, it is critical to proceed with caution as there is a likelihood of overpaying an employee who might fail to perform. Start a new employee on a reasonably low salary, and assure them that their salary will be reviewed within a certain period based on their performance. This will however depend on the demand of the skills that the employee possesses. In some cases employees who come demanding a premium without proving their worth to the organisation, can prove a waste of money when they fail to deliver. Unfortunately contractual obligations will oblige you to pay the agreed high basic salary irrespective of performance.

Avoid ambushing employees on remuneration related developments by ensuring constant communication on any changes to remuneration. This also includes making sure employees have clear goals and targets for any given performance review period.

Organisations need to know that juggling with different forms of job evaluation systems will not improve internal and external equity as long as the bases for paying remuneration are fundamentally flawed. Some organisations are continuously haemorrhaging financially, simply because they have decided to use market comparisons alone as a basis for remunerating employees.

Many organisations will need to start afresh in order to free themselves from remuneration systems that are not based on business performance. You need to continuously check how much you are spending on staff costs to generate a dollar of revenue. If you find this figure going up without a corresponding increase in business performance you might be heading for trouble. It is also important to note that those that quickly resort to retrenchment in hard times without addressing the basis of your remuneration will only experience short term reprieve.

For remuneration systems to work, the fortunes of the company and the employee need to be tied together. If the company performs, employees will gain. All the frameworks of the remuneration system should be communicated to all staff and managers need to use remuneration as a tool to drive the performance of their subordinates.

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